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Corporate Social Responsibility (CSR) and Innovation – The drivers of business growth?

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Abstract

Nowadays, CSR and Innovation are the foundation of business competencies. CRS and innovation has emerged slowly over the past decade. Improvements in the CRS process can refer to as ‘social innovation’. Companies should do more to tackle the issues such as: social justices, poverty and climate change. The only successful brands of the future will be the ones that see these challenges as opportunities for innovation, rather than risks to be alleviated. As stated by the department of Trade and Industry in the United Kingdom, CSR represent “*the integrity with which a company govern itself, fulfils its mission, lives by its value, engages with its stakeholders, measures its impact and reports on its activities*” .

Further, we analyze the main four topics related to CRS and innovation, starting with Corporate Social Innovation; which will refer to a product innovation with a social purpose, in addition we will focus on the important subtheme of corporate social innovation focused on low-income market - Base of the Pyramid (BOP). Moreover, Social Entrepreneurship will be analyzed since they act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches, and creating solutions to change society for the better. Likewise, the paper will point the significance of Eco-Innovation as a new discipline with the purpose of describing products and processes that contribute to sustainable development.

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1. Introduction

Corporate Social Responsibility is not a new area of the study; but recently is gaining attention and interest among leading world companies, universities, researchers, media, the governments and NGOs. While some companies are totally sold out on CSR by incorporating CSR as part of their business strategies, others are less enthusiastic, wondering if such efforts are just public relations stunts or corporate image-building activities. If companies see CSR as mere philanthropy or charity and nothing more, then they do not yet clearly understand what CSR is. CSR, when properly understood, is not what you do with your money once you have made it but how you make your money.

Being a socially responsible company is much more important than ever before. Ever since society's expectations have changed, the expectations of customers, partners and employees have altered as well. Still, the issues now are far more various, complex, global, and fast-changing than ever before. In the era of globalization, businesses are no longer able to conduct destructive and unethical business practices such as unfair labour practices, childhood obesity, environmental pollution, without receiving negative response from the public. In order to retain in the market, the importance of conducting sustainable business practice has become inevitable demand from civil society, consumers, other corporations and governments in general.

Defining CSR is not an easy task, since there is no single absolute definition to use and one size does not fit all. According to Lord Holme and Richard Watts in the article "Making Good Business Sense" published by World Business Council for Sustainable Development define Corporate Social Responsibility (CSR) as "*the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*".

According to Economist Intelligence Unit survey, the *Economist*, January 17, (2008) found that 53.5 percent of the responding firms agreed that CSR "is a necessary cost of doing business" and 53.3 percent agreed that it "gives us a distinctive position in the market". On the other hand only 3.8 percent of the respondents believed that CSR was a "waste of time and money". The *Economist* observed, "It is almost unthinkable today for a big global corporation to be without [a CSR policy]"

While investigating the CSR we have to take into account the fact that different countries have different priorities and values that shape the way business operates. In United States, CSR is seen in terms of philanthropic model which requires a strategic approach to charitable contributions. In other words company's main purpose is to make profit, pay their tax duties, and then donate certain share of profits to charitable causes, in view of the fact that they strive to receive more benefits by giving something back to society. Garvin (1982) claimed that a well-managed programme of corporate philanthropy requires a set of goals and objectives; guidelines for determining how much money will be allocated to the programme; criteria for making grants and for evaluating their use; and either in-house professional staff or access to competent consultants. In Brazil, "CSR is about commitment to strive for the best economic development for the community, to respect workers and build their capacities, to protect the environment and to help

create frameworks where ethical business can prosper”. In Thailand “CSR must be locally relevant and meaningful only if backed up action”. In Ghana “CSR is about capacity building for sustainable livelihoods. It respect cultural differences and finds the business opportunities in building the skills of employees, the community and the government” (Holme and Watts; 2000). On the other hand, the European model differs in the way that it is much more focused on operating the core business in a socially responsible way and by investing in the community where they operate for solid business case reasons.

In Macedonia the situation is far more diverse. The concept of CSR in the country is still considered vogue to the wider audience, even though different activities to promote CSR have created some degree of awareness of the term and concept. Based on the research done by The Institute of Sociological, Political and Juridical Research (CSR in FYR Macedonia, 2006) found that 21.65 percent of business entities acknowledged that the term CSR is unknown to them, while 48.45 percent claimed they recognize the term i.e. they have heard of it but cannot define it, and only 29.9 percent totally knew the meaning of the term.

Based on the National Agenda on Corporate Social Responsibilities for the Republic of Macedonia 2008-2012 (Petrovsk, V; Nikolov, A;) acknowledged that while in developed countries CSR is predominantly related to voluntary action that goes beyond legal requirements in an effort to minimize the negative and to maximize positive effects on the society and the environment, it is quite usual for Macedonian managers to label fulfilment with legal obligations as CSR. According to a manager of a medium chemical company during the Baseline study on CSR in Macedonia (2007) pronounced that “regular payment of employees’ salaries, timely payment of tax liabilities to the state, payment of liabilities to the suppliers and timely delivery of the products to the customers are main CSR issues that concern generally all companies in the country”. Another distinction in the local understanding of the concept is that CSR is often perceived as an obligation only of profitable companies. According to a manager in a renowned bank in Macedonia emphasized that “it is too early to consider introducing the concept of CSR since the general business climate is more burdened with other priorities, and it is hard to make a profit”.

Andriof and McIntosh (2001) recommend that CSR requires corporate leaders to understand that everything a company does has some flow-on effect either inside or outside the company, from customers and employees to communities and the environment. According to the authors these impacts have a ripple effect on society that can be divided into three broad overlapping areas, such as:

- **Social** – involvement in external social issues such as education, social inclusion, generation and employee volunteering.
- **Economic** – addressing issues relating to jobs, ethical training standards and product value.
- **Environment** – consideration of emissions and waste control, energy use, product life cycle and sustainable development.

The Lisbon Strategy, lunched in March 2000 aimed “to make the European Union (EU) the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic

growth with more and better jobs and greater social cohesion by 2010”.^d In the definition above the notion environment is not mentioned, however it was added later in the Stockholm European Summit (spring 2001) as an extra consideration.

Due to the fact the EU and some other countries, in order to keep their competitive position in a globalizing world economy has flagged great aspiration regarding innovation. Innovation is stimulated not only by new technologies, the development of engineering skills and consumer demands, but also by a considerable global concern for CSR issues. Companies in order to be successful and innovative nowadays, they must consider the social and environmental impact of their operational processes, stimulate the creativity of their workforce, and cooperate with their suppliers, customers, and other business partners in designing and developing new and innovative products and services.

A research done by MacGregor and Fontrodona (2008) on SMEs had either a proactive or a reactive approach to CSR and Innovation. The most successful companies were proactive in their approach and also, interestingly, had the highest level of CSR implementation. They also argued that proactive CSR is easier than proactive innovation. CSR adoption can be a starting point for proactive innovation and also for companies that want to improve their position in their industry but are generally risk-averse. Innovation tends to be risky, whereas CSR can be a means of reducing risk: companies often implement CSR as a means of reducing risks associated with legislation or stakeholders. Although this is sometimes criticized as an incremental, short-term view of CSR, the important thing is to get companies started on the process. Once they have started, companies may quickly appreciate the benefits and start to implement longer-term CSR.

The figure below describes the virtuous circle of CSR and innovation

Figure 1 - CSR and Innovation

Source: (Exporing the fit between CSR and Innovation, 2008)



According to the authors (MacGregor and Fontrodona, 2008) CSR-driven innovation has as its end result products and services that have some sort of social purpose. It is driven by values for the

^d European Council, Lisbon 2000

creation of social products and services. In the model they define these social products and services as being in the areas of Design against crime, eco-design, and Design for All. Innovation-driven CSR, on the other hand, may be more associated with creating social processes and is driven by value. The end result may not have a solely social rationale, yet the way that the output was developed, through, for example, employee or supplier actions, is more socially responsible. So it can be said that CSR-driven innovation is about “*doing the right things,*” while innovation-driven CSR is about “*doing things right.*”

1.1. *The role of CSR within Makedonski Telekomunikacii*

Makedonski Telekomunikacii (MT) as a leading company in Macedonia is aware of its important role and place in the life of Macedonian society. MT understands the environment around and responds to its needs and contributes to its development. The good corporate citizen principle is the leading ideal behind all the support, sponsorship and charity activities.

Caring about the community as a whole is the copestone of MT corporate social responsibility philosophy. They respond to the needs of communities by supporting organizations and activities that advance the quality of life where their customers, shareholders, suppliers, contractors, local community members and employees work, live and do business. MT strongly believes that by fulfilling their responsibilities in economic, social, environmental and other areas, they will automatically enhance their corporate value. Their sponsorship and donation strategy supports:

- Access to arts and cultural experiences for the broadest spectrum of audiences, regardless of income levels
- Sport events which promote team spirit and healthy lifestyles and bring individuals and communities closer together
- Activities referring to academia engaging the community involved in higher education & research
- Essential services that promote social and emotional health and well-beingⁱ

2. Social Entrepreneurship

The notion called *Social Entrepreneurship* (SE) has emerged in late 1990s in US and UK and it has become a global phenomenon, seen as innovative approaches to solve social problems and at the same time creating economic value. SE use their creative talent to develop solutions to social problems that range from cleaning up the environment to improving working conditions for workers around the world; their aim is to use their businesses to make money *and* to make the world a better place to live. SE in practice embrace a wide mixture of activities such as: creative individuals devoted to making a difference; social purpose business ventures dedicated to adding for-profit motivations to the nonprofit sector; new types of philanthropists supporting venture capital-like ‘investment’ portfolios; and nonprofit organizations that are reinventing themselves by drawing on lessons learned from the business world. (Mair, Robinson and Hockerts, 2006)

According to Francesco Perrini and Clodia Vurro ‘...**social entrepreneurs** are change promoters in society; they pioneer innovation within the social sector through the entrepreneurial quality of a breaking idea, their capacity building aptitude, and their ability to concretely demonstrate the quality of the idea and to measure social impacts. ’We define SE as a dynamic process created and managed by an individual or team (the innovative social entrepreneur), which strives to exploit social innovation with an entrepreneurial mindset and a strong need for achievement, in order to create new social value in the market and community at large.’ (Social Entrepreneurship, 2006, Chapter 5).

The article published by Michael Porter and Mark Kramer, the famous Harvard Business School professors, "The Big Idea: Creating Shared Value" (2011) argues that corporate strategies must be adapted to service social needs. By combining the creation of economic value and serving social needs "shared value" is created. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. Further, Porter argues that "for profit" companies are well suited to solve social problems while at the same time serving their shareholder's interest to maximize investor returns. This will drive the next wave of innovation and productivity growth in the global economy.

3. Social innovation

The results of social innovation are all around us. Self-help health groups and self-build housing; telephone help lines and telephone fundraising; neighbourhood nurseries and neighbourhood wardens; Wikipedia and the Open University; complementary medicine, holistic health and hospices; microcredit and consumer cooperatives; charity shops and the fair trade movement; zero carbon housing schemes and community wind farms; restorative justice and community courts. All are examples of social innovation – new ideas that work to meet pressing unmet needs and improve peoples’ lives (Mulgan, 2010, p.7). Social innovation refers to new ideas that work in meeting social goals (Mulgan, 2010, p.8).

Authors Brown and Wyatt (2010, p.33) point to the importance of design thinking for social innovation. Design thinkers look for work-around and improvise solutions and find ways to incorporate those into the offerings they create. They consider what we call the edges, the places where “extreme” people live differently, think differently, and consume differently (Brown and Wyatt, 2010, p.32). The origin of design thinking was from 1991 which was formed as organization named IDEO, as a merger between David Kelley Design, which created Apple Computer’s first mouse in 1982, and ID Two, which designed the first laptop computer, also in 1982. Initially, IDEO focused on traditional design work for business, designing products like the Palm V personal digital assistant, Oral-B toothbrushes, and Steelcase chairs. These are the types of objects that are displayed in lifestyle magazines or on pedestals in modern art museums (Brown and Wyatt, 2010, p.33).

4. Eco Innovation

OECD defines **Eco Innovation** as a new concept which differs from generic innovation on two significant characteristic “Innovation that reflects the concept’s explicit emphasis on a reduction of environmental impact, no matter whether or not that effect is intended. This is not limited to innovation in

products, processes, marketing methods and organizational methods, but also includes innovation in social and institutional structures” (OECD, 2009, p. 13).

In Japan, the government’s Industrial Science Technology Policy Committee defines eco-innovation as “a new field of techno-social innovations [that] focuses less on products’ functions and more on [the] environment and people” (Ministry of Economy, Trade and Industry (METI), 2007). Eco-innovation is thus seen as an overarching concept which provides direction and vision for pursuing the overall societal changes needed to achieve sustainable development.

Eco-innovation leads to progress in eco-efficiency. **Eco-efficiency** is a management philosophy to guide and measure companies and other actors’ development in environmental performance. **Eco-efficiency is about value and quality for all actors: to achieve more value with less environmental impact.** It is a concept from business not environmentalists (Kemp, R.; and Munch Andersen, M., 2004). The new Europe 2020 strategy (March 2010) aims at transforming the EU to a smarter, greener, more inclusive economy. Greater innovation and more efficient management of resources will result in an EU economy that is more competitive in a world of increasing energy prices, and significantly greater resource constraints and competition. The Innovation Union flagship recognizes that eco-innovation will play an increasing role in the future as Eco-innovation is central to addressing the challenges or resource scarcity, air, water and soil pollution and also provides opportunities for growth and jobs.

5. Base of the Pyramid

The new terminology *Bottom of the Pyramid* started to emerge after the publication of ” *The fortune at the Bottom of the Pyramid*” of the authors C.K. Prahalad and S.L. Hart in 2002. Bottom of the Pyramid constitute the largest but poorest socio-economic group of people who are basically based in underdeveloped countries where most of people live with less than 2\$ a day and also illustrate the importance of those consumers in the world. According to the research made by Prahalad and Hart, from all six billion market four billion of them are in the group of low income people. Having these into a consideration, authors suggest different approach toward as they called the consumers in fourth tire. (See figure below)

Figure 2: Base of the Pyramided



Source: Prahalad and Hart, 2002, p, 4

According to the figure above we can note that the authors actually divided the world population in the four tiers according to their purchasing power parity (PPP) grouped in to three categories. PPP represents a measure that equates the price of a basket of identically traded goods and services across the country, providing a comparison of prices (London, 2007, p.8). Off course in the literature there are different authors who classified the tiers in different amount (Mendoza and Thelen; 2007). According to London (2007, p.11) "the base of the pyramid is a term that represents the poor at the base of the global socio-economic ladder, who primarily transact in an informal market economy. The base of the pyramid aim is to increase the living standard of the poor population and enterprises to see an opportunity and start selling to this poor nation, but its results also showed that except the increase of the enterprise earning it resulted also on poverty reduction (London, 2007). Even through in the world every year are spent more than two trillion dollars from the government of the developed countries still these governments failed to do a major step in increasing the living standards of these people. But there where governments are failing private sector started to show a great results by selling cheap products to the people in the four tier which had lead from large corporation like GE and Wall Mart to an organization like Toyota and Tata who started to sell 2000\$ (Simanis & Hart, 2008). By paying attention to BoP we will get win-win situations: it is an intriguing, promising, and seductive prospect, mostly because these markets where consumers can spent about 2\$ in a day have been ignored (Davidson, 2009, p.22). Enterprises if they want to increase their profitability by increasing sales to the consumers in the Bottom of the Pyramid they need to reorganize their market, poses major new challenges: how to combine low cost, good quality, sustainability and profitability (C.K Prahalad and Stuart L. Hart, 2002, p.5).

6. Cost of society

Genichi Taguchi is one of the first authors who started to speak about a completely new category of expenses and that are the society expenses. These are expenses that the society pays as a result of a weak quality. If for example we buy a Computer which it has two year warranty and after some days it shows defects, than we are force to send our Computer to be fixed, but by doing this we had made additional costs like transport, the time lost which can be used for something else, the work that needed to be done in that computer etc (Lance, 1992). All of this came as a result of bad quality that's why we recommend that all the products produced for BoP to satisfy the necessary quality standards. According to Taguchi $\text{Total Loss} = \text{Producers Loss} + \text{Customer Loss}$ which means that we have lose-lose situation. But expect the cost that society pays as a result of a weak quality there are other cost that society pays and this costs are related mostly by use of alcohol, smoking and drugs. In a research made in 2002, which estimated annual costs of smoking in Canada showed that they reached \$15,8 billion dollars, of which \$6,4 billion were for revenue losses caused by premature death, and \$3,9 billion dollars for health care expenses. Costs associated with second-hand smoke are far from negligible, as they represent more than a million dollars per year (Groupe De Analyze 2004; p.20). In the USA cost of society from the alcohol and drugs in 1992 was 246 billion dollars (Harwood in Melberg, 2000. p.3).

7. Conclusion

As a conclusion we can say that CSR and Innovation has emerged slowly over the past decade. CSR to a great extent is becoming a part of companies' discussions globally in the search for greater value and competitiveness. Correspondingly, innovation in implicit way tends to be one of the main drivers of competitiveness. Businesses should constantly strive to quickly create new competitive goods and services that form value for customers. CSR is an ethical framework that when used correctly and strategically, enables companies to develop innovative ways to create value and new ways of operations that may be more efficient in resource utilization and will benefit the company in the long-term; the key practice of staying ahead of competitors.

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